

Cardlock fueling stations selling compressed natural gas (CNG)

Sales and Use Tax Law section 6353, *Gas, electricity and water*, provides an exemption from the sale of gas, electricity, and water delivered to consumers through mains, lines or pipes.

A typical compressed natural gas (CNG) station consists of a gas compressor which takes natural gas from the local gas pipeline system and compresses it to a pressure suitable for vehicular use. Customers use a cardlock card to activate the system. In a cascaded storage fueling system, natural gas is taken from the gas main fed through a gas compressor and then pumped into a cascade of high pressure storage cylinders for injection into vehicles through a fueling post or nozzle. At an “on demand” fueling station, a compressor unit is connected to the gas main and the customer waits for the fuel to compress before it is dispensed.

The Board has determined that sales tax does not apply to the sale of CNG when delivered directly into a consumer’s vehicle from a compressor delivery system connected to a natural gas main. The essential mode of delivery of the gas is the main, pipe or line, regardless that some processing (compressing) of the gas occurs. Although the cascaded storage system holds a small quantity of pre-compressed fuel in a series of storage tanks, its sole purpose is to allow the customer the convenience to begin fueling immediately and not have to wait for the fuel compression to occur. The essential mode of delivery is the municipal gas main in either the cascaded or on demand fueling system. The nontaxable status applies even though the sale of the CNG is made by a third party fuel vendor and not the public utility who owns or operates the gas main, pipe or line.

However, the sale of CNG from a high pressure storage tank which is not directly connected to a gas main, would be subject to the sales tax, as the fuel would not have been delivered to the consumer through a main, pipe or line.

This information is provided as a supplement to the Board of Equalization’s September 2003
Tax Information Bulletin.

California State Board of Equalization, September 1, 2003